



# Governance in a Cost-conscious World

There is little doubt that we are now living in a more cost-conscious world and that we are all, whether on a personal or professional basis, carefully counting the pennies to ensure that we make ends meet. It is no different if you are running a pension scheme. The question for both sponsoring employer and trustees is: "How do we deal with these challenging times?"

## Pressures and priorities

As the recession tightens its grip on employers it is having a knock-on effect on the company pension scheme. Companies are looking to reduce their operating costs and also to review the viability of non-business generating functions – and the pension scheme will not be exempt from such a review.

The resulting pressures on trustees may include smaller budgets, increased financial risk due to the company's worsening funding position and loss of member confidence or respect. With such a focus on cost it is vital that employers and trustees question their immediate priorities; what is sound practice and what are 'nice to haves'?

Now is the time to ensure that you have a robust business plan in place, which will help you prioritise and budget. It is almost certain that some of your key priorities will include valuations, annual reports, benefit statements and changes driven by legislation. You may also wish to consider if there is a case to look afresh at some aspects of scheme management.

## Governance framework

As the level of risk increases, it is important to consider whether your governance framework remains right for what you need. The environment when it was first put in place may have been very different to today's.

- Does the trustee board consist of the right number of people? Have they the right skills? Is anyone conflicted due to, for example, their day job?
- Is the sub-committee structure appropriate for making and implementing decisions quickly and speeding up trustee business? Are the terms of reference still delivering to the objectives?
- Do you have sufficient scheme secretarial support? Is this person conflicted because of a company role? Does he/she have the necessary time and skills?
- Do you seek advice and monitor adviser effectiveness? Do you challenge this advice? How often do you review the advice and decisions made?



- Are you fully aware of your delegated responsibilities? How accountable are suppliers for these responsibilities?
- How often do you monitor your defined contribution (DC) scheme? Are you storing up a big problem for the future?
- Do you have an effective risk management programme in place? Is it focused solely on your defined benefit (DB) scheme or is DC covered?
- Is your data reliable? When did you last audit this?

## The big risks

The current economic climate and the Pensions Regulator have caused businesses to focus on certain priorities based on underlying risk.

- The employer covenant should be reviewed to see if any changes have taken place. Trustees must identify changes and assess the potential impact on the security of the scheme.
- The investment strategy, possibly set some time ago, will need to be reviewed. There may have been changes in the scheme, covenant or economic back-drop which should also trigger a review.

You will need to consider how best to communicate key messages to members. Therefore, you will need to consider whether your communication strategy allows you to share news effectively.

The Pensions Regulator has also issued guidance which provides new minimum standards for record keeping. There may be events on the horizon which make it sensible to review your records and administration – which in turn may help reduce future costs/claims.

## Where to find cost savings

It is nearly always possible to save money by questioning how a service is provided – and without undermining quality and integrity.

Here are some simple questions that will help:

- Why are some tasks undertaken in a particular way – or at all? How else can these be done? Can someone else complete this work in a more effective manner?
- Is the cost structure delivering value for money? Are you paying for services that you no longer use?
- Do you need to hold as many meetings or in a particular location?
- Are you making best use of technology e.g. do you have to meet face-to-face?
- Is your scheme being administered in accordance with its rules?
- And most importantly, are you getting value from your expenditure?

In its Corporate Plan for 2009 to 2012 the Pensions Regulator writes, "Good governance is more, not less, important during the downturn, and runs to the heart of a well-run pension scheme."

The recession is forcing companies to tighten their belts in a quite drastic fashion and it is in the trustees' and members' interests that employers remain solvent to pay future contributions to the scheme (and address deficits).

Ensuring that your scheme is well governed, and reviewing your current strategies, will undoubtedly not just help you to manage your risks more effectively, but may also save you money both in the short and long term.

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